

JOHN WAIHEE  
GOVERNOR



STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING  
AND GENERAL SERVICES

P. O. BOX 119  
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MAY 22 1991

RUSSEL S. NAGATA  
COMPTROLLER

ROBERT P. TAKUSHI  
DEPUTY COMPTROLLER

COMPTROLLER'S MEMORANDUM NO. 1991-20

TO: Heads of Departments  
(Attention: Personnel/Payroll Offices)

FROM: Russel S. Nagata, Comptroller

SUBJECT: Social Security Tax Change in July 1991

Our Central Payroll office has been advised by the Employees' Retirement System of certain changes to the Social Security tax in July 1991. There are new requirements for the mandatory participation in the Social Security program for State of Hawaii employees who are not members of the Employees' Retirement System.

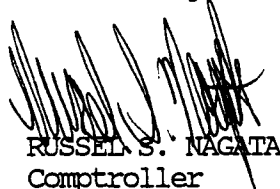
A copy of the Employees' Retirement System's recent memorandum on this matter is enclosed for your agency's information and files. The memorandum includes a revised table of Retirement Class (FICA) Codes.

To put the new requirements into effect in July 1991, the following instructions are being provided for the preparation of Payroll Change Schedules and related inputs:

- (1) Because employees affected by the new requirements are paid on an after-the-fact basis, there should be no impact of the new requirements on payrolls to be paid on July 15, 1991.
- (2) For payrolls to be paid on July 31, 1991, payments should be made for employees affected by the new requirements for both:
  - (a) Services rendered July <sup>Monday</sup> 1, 1991 (and any services prior to that date and not previously paid) ✓
  - (b) Services rendered July 2, <sup>Tuesday</sup> 1991 and thereafter through July 15, 1991.
- (3) For payrolls to be paid on July 31, 1991, amounts for (2)(a) above (i.e., services rendered prior to July 2, 1991) must be coded separately with a new special payment type code "8". Amounts paid with this code will have only Medicare tax calculated and deducted, regardless of the code that is shown on the employee's basic record.

- (4) For payrolls to be paid on July 31, 1991, amounts for (2)(b) above (i.e., services rendered July 2, 1991 and thereafter) do not require any new special coding (but they must conform, of course, to the revised table of Retirement Class (FICA) Codes). We have asked the ICS Division to mass-change the "E" codes to "S" codes on the payroll change schedules for July 31, 1991; if an employee is to remain a class "E" employee, the appropriate change must be made by your agency on the payroll change schedule.
- (5) For all payrolls to be paid after July 31, 1991 through December 31, 1991, any amount for services rendered prior to July 2, 1991 must continue to be separately coded with the new special payment type code "8". This special coding will enable Central Payroll to issue 1991 Forms W-2 that will correctly separate Medicare-only wages; it is important that employing agencies code payrolls for affected employees carefully.
- (6) For payrolls to be paid after December 31, 1991, affected employees will be included in the mandatory participation in the Social Security program for all payroll payments, including those for services rendered prior to July 2, 1991 (in the event retroactive payment must be made for such services). The new special payment type code "8" will be not be continued for any payroll payment made after December 31, 1991.
- (7) Employing agencies will note that, under these instructions, only one payment type code is allowed in the field. Employing agencies will not be able to indicate the exact type of pay being made (fringe pay, retroactive pay, vacation pay, etc.) for those services rendered up through July 1, 1991. For example, an overtime payment that must be coded under these instructions with the new special payment type code "8" will not be reflected on the payroll system's reports as overtime pay since it cannot be coded in the usual manner as overtime.

If your payroll staff have questions concerning these instructions, they should contact the assigned Central Payroll staff. While the procedures described here are necessarily burdensome for both your staff and ours they are the least complicated procedures that could be arranged under the circumstances. We are grateful for the effort and cooperation of your staff when these unavoidable tax changes occur.

  
RUSSELL S. NAGATA  
Comptroller

Enclosure

JOHN WAIHEE  
GOVERNOR



STATE OF HAWAII  
EMPLOYEES' RETIREMENT SYSTEM

May 17, 1991

To: State Personnel and Payroll Officers  
From: Stanley Siu, Administrator *Stanley Siu*  
Subject: PROPOSED SOCIAL SECURITY REGULATIONS

The proposed federal regulations governing the mandatory participation in the Social Security program are summarized below. The regulations will only affect employees who are not members of the Employees' Retirement System (ERS). If there are any further changes to the regulations, we will notify you accordingly.

1. Social security coverage will be mandatory for many State and county government employees who are not covered by a retirement system after July 1, 1991. Emergency, temporary, part-time, casual, "contract," A+ program, and other employees who are excluded from ERS membership will therefore have to contribute 7.65% of their gross wages (6.2% for social security and 1.45% for medicare).
2. Students who are not working for their schools will be subject to the social security as well as the medicare tax. Students enrolled in and employed by their public schools, colleges or universities continue to be excluded from social security and medicare coverage.

Example: A student from McKinley High School who works in that school will not have to pay any social security or medicare tax. If the same student worked for another school or government agency, social security and medicare taxes will be deducted from the student's pay.

3. Employees who are in two or more positions will not be affected by the new social security tax if they are members of the ERS. However, any portion of their total combined salaries which exceeds 100% FTE, will be subject to the 1.45% medicare tax.

Likewise, ERS retirees who are working for the legislature or the State or county governments will only be subject to the medicare tax since they are covered by a retirement system.

4. Others who are excluded from the Social Security program include police officers; firefighters; election workers with wages less than \$100 per year; disaster emergency workers; persons hired through programs to relieve unemployment; individuals paid for services performed in a hospital, home or institution where they are patients or inmates; and employees with J-1, F-1, or M-1 visas.
5. The maximum wages that are subject to social security and medicare taxes in 1991 are \$53,400 and \$125,000, respectively. Therefore, after an employee reaches the \$53,400 social security tax ceiling, the 1.45% medicare (hospital insurance) tax continues up to \$125,000.
6. The State and county governments must match the employees' contributions.

The above regulations do not apply to services performed up to and including July 1, 1991. Therefore, special procedures should be developed by your appropriate payroll and personnel agencies to process these payments, especially for overtime. The IRS has also stated that payments made after December 31, 1991 for services performed up through July 1, 1991 will be subject to the new regulations.

An updated Retirement Class Code sheet is attached to assist you in implementing the upcoming change. Please note that the "S" code should be used for employees who are affected by the new law. It is important that the changes be made on a timely basis to minimize subsequent payroll adjustments and to avoid problems with the 1991 W-2 tax reporting requirements. It is our understanding that the Department of Accounting and General Services, Department of Personnel Services, Department of Education, and the University of Hawaii are developing plans to minimize problems with the conversion. All others should develop their own procedures to implement the upcoming coding change.

Please contact the following individuals if you have any questions:

David Shimabukuro	Coding conversion	586-1702
Wesley Machida	Social Security and Medicare coverage	586-1728
Elizabeth Mundon	Membership enrollment	586-1680

DS:bmt  
Attach.

EMPLOYEES' RETIREMENT SYSTEM  
RETIREMENT CLASS (FICA) CODES

Class Code	Description	Payroll Deductions		
		Retirement	FICA (Social Security & Medicare)	Medicare Only
<b>ERS Members</b>				
Employees must have employment terms exceeding 3 months with a minimum of 50% FTE to be eligible for ERS membership,				
A	Class A member of contributory retirement plan.	Yes	Yes	*
B	Class B member of contributory retirement plan <u>hired on or before March 31, 1986</u> (police officers, firefighters, members who previously elected not to join Social Security, and members with J-1, F-1, or M-1 visas).	Yes	No	No
C	Class C member of noncontributory retirement plan.	No	Yes	*
D	Class B member of contributory retirement plan <u>hired after March 31, 1986</u> (police officers, firefighters).	Yes	No	Yes
<del>E</del>	<b><u>Not Eligible for ERS Membership</u></b>			
E	Employees with Medicare coverage only.  Currently: Certain student hires, temporary, part-time, etc.  For services after 7/1/91: Part-time work performed by ERS members and retirees.	Not Applicable	No	Yes
S	Employees with Social Security and Medicare.  Currently: Substitute teachers.  After 7/1/91: Certain student hires, temporary, part-time, casual, "contract," A+ program, emergency, election workers earning \$100 or more per year. (Previously code E.)	Not Applicable	Yes	*
N	Employees exempt from ERS membership, Social Security and Medicare (students working for their educational institutions; part-time employees with J-1, F-1, or M-1 visas; election workers making less than \$100 per year; disaster emergency workers; persons hired through programs to relieve unemployment; individuals paid for services performed in a hospital, home or institution where they are patients or inmates).	Not Applicable	No	No

\*If salary exceeds FICA ceiling, excess is subject to Medicare tax.